

## **Urban Project Preparatory Facility - 2019**

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The audit of the financial statements of the Urban Project Preparatory Facility for the year ended 31 December 2019 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article IV of the Loan Agreement No. 3706 SRI(COL) dated 17 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observation which consider should be report to parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Financing Agreement, then Ministry of Provincial Councils, Local Government and Sports, presently Ministry of Public Service, Provincial Councils and Local Government is the Executing Agency and Provincial Councils of 09 Provinces are the Implementation Agencies of the Project. The objective of the Project is to achieve high level readiness for priority Urban Project. As per the Loan Agreement, the estimated total cost of the Project was US\$ 12.20 million equivalent to Rs.1,879 million and out of that US\$ 10 million equivalent to Rs.1,540 million was agreed to be financed by Asian Development Bank. Out of that US\$ 5.74 million equivalent to Rs.884 million was allocated for the Ministry Public Service, Provincial Councils and Local Government and the balance of US\$ 6.46 million equivalent to Rs.995 was allocated for the Ministry of Urban Development and Housing. The Project had commenced its activities on 01 June 2019 and scheduled to be completed by 30 September 2021.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the section of Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2 Comments on Financial Statements

### 2.1 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Law, Rules and Regulations	Non- compliance	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Section 6 (01) (a) of the Public Contract Act, No. 03 of 1987	The contractor who accepts a contract at a cost of Rs. 5 million or more is required to be registered at the Register of public contract within 60 days after the signing of the contract. Further, the contract agreement should be registered at the Register of Public Contract. However, the contractors who engaged in civil construction and supplies contract had not complied with this requirement.	The action could not be taken against the contractor on matters connected to the legality and taxation.	No Comment.	The action is required to be taken to influence the contractors to comply with these requirements.
(b)	Public Contract Act, No. 3 of 1987	The provisions had not been adhered in the Design and Procurement of Consultant.	Escaping the legal aspect of the contract agreement.	No comment.	Need to comply with the rules.
(c)	Management Service Circular No. 1/2019 of 05 March 2019	The Meeting of the Project Steering Committees required to be held once in 02 months. However, those meetings had not been held during the year under review.	The monitoring activities of the Project may not be carried out effectively.	No comment.	The meetings of the Project Steering Committees are required to be held regularly.
(d)	Department of Management Audit Circular	The Meeting of the Audit and Management Committees required to be held four in the year. However, meetings had not been held during the year under review.	The monitoring activities of the Project may not be	No comment.	The meetings of the Audit and Management

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carried out effectively.

Committees required  
to be held regularly.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
A private company with foreign joint venture partner had been selected a Consultant and paid Rs.50.11 million as mobilization advance. However, no any physical progress had been achieved during the year.	Activities of the project will be completed with delays.	Need assessment and development proposal had been made to identity sub projects.	Action should be taken to make influence to the consultant to complete the work promptly assuring required level within the contract period.

#### 3.2 System and Controls

No	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Consultant had been paid Rs.5.92 Million without being obtained inspection report, Monthly report and quarterly report etc.	Work will not be completed promptly assuring the required level.	Payments had been done before inspection, monthly and receiving quarterly report.	Action should be taken to make payment as per the contract agreement.
(b)	Although the Project Director and project Accountant had been appointed, Project Management Unit and Provincial level project implementation units with complete carder had not established.	Activities of the project will be completed with further delay.	Appointments could not be done due to presidential election and a circular was issued by Presidential secretary.	Action should be taken to established project management units and project implementation units with entire carder.